TENOR
ESOP PARTNERS

The Challenge:

Many private business owners and shareholders have their wealth locked up in their businesses. As retirement and/or succession planning becomes a consideration, or when the business owner wants to diversify their wealth, they are typically presented the following options:

- Sell the business to a competitor or strategic buyer
- Sell the business to a financial buyer/private equity
- Leveraged recapitalization

All these options involve invasive due diligence by the potential buyer or investor. The resulting transactions often include unfavorable claw back or indemnification provisions, exposing the selling shareholders to risk. In all these cases, the business legacy and the fate of employees is uncertain.

The Tenor Solution:

Tenor ESOP Partners enable private business owners and shareholders to unlock and access wealth tied up in their businesses. This is done through a tax-advantaged, leveraged sale of the business to a qualified retirement benefit plan known as an Employee Stock Ownership Plan (ESOP).

The owners and shareholders essentially create a buyer for their business and harness tax savings to subsidize the transaction.

The sale to the ESOP is financed through loans extended by a bank and by the sellers. The sellers realize full value on the sale of the business and receive an ongoing financial interest in the business in return for partially financing the transaction.

Unlike a sale to a third party, the sellers continue to benefit economically from operating their business uninterrupted as they have in the past, and they maintain control of succession planning.

Additionally, this structure allows the selling shareholders to provide equity incentives to family members and other key employees.

The Outcome:

- Selling Owners/Shareholders:
  - Receive full fair market value on the sale of shares to the ESOP
  - May receive significant cash at closing
  - May permanently defer capital gains taxes on the sale
  - Retain control over the board, operations, and succession planning
  - Retain an equity interest in the business post-closing, used to create additional future liquidity
- The company receives significant tax deductions enabling it to pay little-or-no corporate taxes resulting in what is essentially a for-profit, tax-exempt entity
- Employees over time receive a retirement benefit windfall

Capital Gains Tax on Sale of the Business:

A sale of a business is subject to capital gains taxes (23.8% federal tax rate plus the applicable state tax). The Tenor solution uses a special ESOP provision in the tax code which allows these taxes to be deferred. When structured correctly, this deferral may become permanent, resulting in no capital gains paid on the transaction.

Benefit to Employees:

Over time the ESOP allocates the acquired shares to employee accounts, resulting in an employee retirement benefit. This long-term benefit aligns employee interests with those of the business, reducing employee turnover and improving employee commitment and performance.

Tenor ESOP Partners:

Tenor ESOP Partners is a leading national transaction advisor focused exclusively on advising and acting as advocate for companies, shareholders, and management teams in analyzing, structuring, financing, and implementing ESOPs. The principals of Tenor have deep experience in ESOPs, traditional mergers and acquisitions, and financing transactions. Each member of the Tenor team previously held senior leadership positions with large institutional organizations. We have come together as an agile corporate finance firm focused on creating elegant exit and succession solutions using employee ownership as the vehicle.

Contact us to learn more:

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